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SUBJECT: HONDURAN TRADE MINISTRY ON FTAA: WHAT'S IN IT FOR US?

REF: A. 05 STATE 44480

1B. 04 TEGUCIGALPA 715

11. (SBU) Summary: EconOffs delivered reftel talking points to the Honduran Vice Minister of Trade Irving Guerrero on March 29. In response, Guerrero strongly questioned the value that Honduras will receive from the FTAA (Free Trade Area of the Americas) and even voiced concern that a successful FTAA could erode the benefits that Honduras has worked to obtain under CAFTA. While he stressed that Honduras is not opposed to the creation of the FTAA, it is clear that, with CAFTA (almost) a reality, the FTAA has become a much lower priority for the GOH. End summary.

12. (SBU) EconOffs met with Vice Minister of Trade Irving Guerrero on March 29 to discuss FTAA status and deliver the talking points contained in reftel. While Guerrero expressed mild pleasure that progress was being made between the U.S. and Brazil, he pointedly stated that, with CAFTA on the horizon, FTAA negotiations may seem a rather extraneous exercise that would at best provide Honduras minimal economic advantages and at worst could prove to unravel the advantages gained under CAFTA, due to overwhelming Brazilian competition.

"I'm just not sure that FTAA is worth it... CAFTA is the real deal.8

13. (SBU) Vice Minister Guerrero described Honduras' views on FTAA as an agreement of diminishing returns. Successful CAFTA implementation is a more important priority for the GOH. Honduras' largest trading partner is the United States, with forty-five percent of all Honduran exports going to the U.S., followed by the second largest trading partner, fellow Central American CAFTA countries. A limited free trade agreement exists with Mexico. Honduras trades very little with the Mercosur countries, and Guerrero sees little return in increased access for Honduran goods in these markets. Worse, FTAA trade negotiations would take resources away from other leading trade-related priorities, such as trade capacity building and CAFTA implementation. Further straining Honduras' limited resources, Central America has begun preliminary talks with the European Union on a potential trade agreement (a fuller account of these other priorities follows septel).

"Why establish a middle level if the floor and ceiling already exist?"

14. (SBU) Vice Minister Guerrero agreed that FTAA negotiating partners should not expect to receive the same level of benefits from the U.S. as partners in more comprehensive FTAs do. In his view, the WTO maintains a baseline of trade rules. CAFTA will now create a high ceiling of freer trade and opportunity for Honduras with its two largest trading partners, the U.S. and the rest of Central America. FTAA advantages lie somewhere in between, with benefits above the WTO-established floor and falling short of the anticipated CAFTA ceiling. Comparatively, Mercosur-Honduras trade is minor when compared with trade volumes with the U.S. and Central America, making CAFTA a much greater priority for the GOH.

"If Argentina and Brazil gain access to the U.S. market, do I win or lose?"

15. (SBU) Guerrero went on to explain that the benefits vis-a-vis the rest of the hemisphere of unique access to the U.S. market could be negated, or at least reduced, should

that privilege be extended to other Latin American countries through FTAA. Brazil, in particular, exports many goods that are seen to compete directly with Honduran products, such as juices, fruits, and textiles. The Vice Minister hopes that with CAFTA, Honduras will carve out a special place in exporting to the U.S., an advantage that could be lessened substantially if Mercosur countries were granted similar access.

16. (SBU) While Guerrero spoke pessimistically about the lack of potential FTAA advantages for Honduras, however, he did stress that Honduras remains interested (if less enthusiastically) in the FTAA and would continue to support the completion of the agreement. He said he did not know if the other CAFTA countries share these views; however, he said he plans to discuss the issue with his counterparts at the CAFTA Trade Capacity Building Working Group Meeting on April 27-29 in Washington.

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Comment: Still on board, but lacking enthusiasm
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17. (SBU) Comment: Guerrero's comments strongly questioning the value of the FTAA marked a departure from his views as expressed in previous conversations (ref B). In previous meetings, Guerrero and other Honduran trade officials have expressed a sense of being on the sidelines of the FTAA negotiations, but have never raised such strong doubts about the value of the overall enterprise. While it is unlikely that these doubts will translate into actual Honduran opposition to the FTAA, it is clear that Honduras now views the FTAA as a low priority. The Ministry of Trade wants to focus limited human capital on priorities such as a European trade agreement and CAFTA implementation. If FTAA negotiations resume as planned, decreased Honduran negotiating capacity could be a cause for concern for the U.S. negotiators. Difficulties could be exacerbated if other CAFTA partners are feeling the same resource limitations.
End comment.

Palmer